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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA pass FAS/OCRA/Radler/Bean/Carver/Riker
EEB/CIP DAS GROSS, FSAEED, MSELINGER
DEPT PASS TO USTDA HSTEINGASS/JNAGY

E.O. 12958: N/A

TAGS: [EAGR](#) [EAIR](#) [ECON](#) [ECPS](#) [EFIN](#) [EINV](#) [ENRG](#) [EPET](#) [ETRD](#) [BEXP](#)
KIPR, KWMN, PHUM, SENV, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
SEPTEMBER 15 TO SEPTEMBER 19, 2008

11. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of September 15 to September 19, 2008,
including the following:

-- INDUSTRIAL GROWTH BACK UP IN JULY
-- NORMAL MONSOON GOOD FOR AGRICULTURE
-- FOREIGN FIRMS NEEDED FOR MEGA POWER
-- AHEAD OF US VISIT, PM CALLS MEETING TO REVIEW ENERGY
POLICY
-- CABINET APROVES COMPANIES BILL 2008
-- DIPP STUDYING ICSID MEMBERSHIP
-- USTDA GRANT PROMOTES STANDARDS COOPERATION
-- INTELLECTUAL PROPERTY DEVELOPMENTS
-- INDIAN CABINET AMENDS PRINT MEDIA POLICY
-- BUREAUCRATIC APPOINTMENTS AT THE MINISTRY OF FINANCE
-- NAMBIAR APPOINTED CIVIL AVIATION SECRETARY

INDUSTRIAL GROWTH BACK UP IN JULY

12. (U) Government data released last week shows that India's
industrial growth rose by 7.1 percent in July (versus 8.3 percent in
July 2007), higher than expectations and up from the previous two
months of the current fiscal year. This is the best monthly
industrial growth in the current fiscal year. The higher overall
growth in July was more broad-based, led by the capital goods sector
which grew by 22 percent versus 12.3 percent in July 2007. The
consumer goods sector grew robustly by 7.3 percent, buoyed by both
durables and non-durables. The manufacturing sector, which
contributes about 80 percent to the index of industrial production
(IIP), grew by 7.5 percent in July versus 8.8 percent a year ago.
Mining was up notably at 5 percent, from 3.2 percent a year ago.
Despite the increase in July, the cumulative increase in industrial
growth during April-July 2008 moderated to 5.7 percent versus 9.7
percent in the same period last year. Analysts opine that
industrial production may pick up in the coming festival months and
with the higher income of over 4.5 million government workers
stemming from the award of the Sixth Pay Commission this month.

13. (U) The upward trend in growth is reinforced by the thinking of
the Centre for Monitoring Indian Economy (CMIE), a well-known think

tank that projects India's industrial production to grow by 9.1 per cent in the current fiscal year. CMIE believes that the Ministry of Statistics' current IIP numbers are grossly underestimated and do not capture the trend in industrial growth correctly. According to CMIE, sectors like machinery, chemicals, basic metals, rubber, plastic and petroleum products and transport equipment would be the growth engine for this year. The forecast is based on analysis of projected new capacity and expected capacity utilization of major industries. This forecast appears too widely divergent when compared to the government's April-July industrial output growth of 5.7 percent, although most analysts now agree that the IIP basket is outdated and inaccurate to some degree.

NORMAL MONSOON GOOD FOR AGRICULTURE

14. (SBU) Based on discussions with the GOI, economists, analysts, and the media, India experienced a normal monsoon this year and the agriculture sector performed satisfactorily during the current kharif (fall and early winter harvested) planting season. In India, where agriculture contributes slightly less than one-fifth of GDP yet employs more than 50% of the workforce, the monsoon rains are the primary source of irrigation for most agricultural land which is described as "rain-fed." Citibank analysts, like other Embassy contacts, forecast agriculture growth of 2% for this monsoon year (MY), coming off a high growth base last year. After a poor performance in July, the rainfall situation improved considerably in August, halting a further deterioration in production prospects of most kharif season grain crops, which include rice, corn, sorghum, millet, and some pulses. As India continues to grapple with double

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digit inflation, there was good news on oilseeds, which exceeded last year's output by 1.65 percent and may help reduce inflationary pressures.

15. (U) Cumulative monsoon rainfall in the country until the end of August was estimated by the Indian Meteorological Department to be two percent below normal, with region-wide distribution of rains satisfactory for agriculture. Cumulative rainfall during June 1 to August 27 was normal or near normal in 32 of the 36 weather subdivisions. Areas where rainfall continues to be significantly below normal include parts of Maharashtra and Karnataka, Kerala, and Nagaland, Manipur and Mizoram, where the major crops are sorghum and rice.

16. (U) Despite the improved rainfall situation in recent weeks, unprecedented floods in several northern districts of Bihar are likely to adversely impact rice and corn production in the state, offsetting possible production gains in most other states. The flood-affected districts in the state account for about one million tons of rice and 800,000 tons of corn production. Severe flooding also recently occurred in some parts of Assam, where rice is the major crop. A prolonged dry spell in July had a negative impact on rice production in the major rice surplus state of Chhattisgarh, as plantings in several districts were delayed due to lack of rain. The rice production situation is normal in Uttar Pradesh, West Bengal, Punjab, Haryana, Orissa, and Andhra Pradesh. However, continued well distributed rains through September and early October are required for a normal or better than normal harvest in most states, except Punjab and Haryana, where the harvesting starts by mid-September. Some flooding in these two states has occurred in the past few days due to excessive rains but the impact on yields and quality is not yet known. Although progressive rice planting up to August 22 is ahead of last year's level at 32.5 million hectares, MY 2008/09 rice production is forecasted to be 95 million tons, marginally below the record 96.4 million tons in MY 2007/08.

17. (U) Government-held food grain stocks on August 1, 2008, are officially placed at 34.1 million tons (9.8 million tons of rice and 24.4 million tons of wheat) compared with 21.2 million tons (9.2 million tons of rice and 12 million tons of wheat) a year ago. Rice stocks are expected to decline to around 5.5 million tons on October 1, 2008, the beginning of MY 2008/09, unchanged from the October 1, 2007 level. With national and some state elections on the horizon,

many state governments have started implementing a highly subsidized rice distribution program (prices ranging from Rs. 1 to Rs. 3 per kg), which has resulted in increased demand for rice distributed from government stocks.

18. (SBU) Despite larger grain stocks, the government ban on exports of non-basmati rice and wheat continues. The government recently stated that the non-basmati rice export ban will be reviewed in November when a clearer picture of rice production emerges. The government has decided to offload up to six million tons of wheat from government stocks in the open market to enhance availability during the lean supply period (September through March) to limit price increases. This may take place after meeting the requirements of the targeted public distribution system (around one million tons per month) and setting aside the required four million tons for buffer stocks (on April 1) and an additional three million tons for reserve stocks. The Cabinet Committee on Economic Affairs has authorized the Food Ministry to decide on the quantity to be released each month, the timing of intervention, locations, and pricing. Minister of Agriculture Pawar was recently quoted as saying that up to one million tons of rice will be sold in the open market to limit price increases if the stock situation improves.

FOREIGN FIRMS NEEDED FOR MEGA POWER

19. (U) Media reports outlined some of the GOI's concerns that Indian companies may fall short of meeting the required financial investment of \$6 billion to finance two of the remaining Ultra Mega

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Power Projects (UMPPs). Bidding has not started for these two UMPPs. India plans to add over 50,000 MW over the next five years, primarily through the addition of five UMPPs of 4,000 MW each. The project at Mundhra in Gujarat, sponsored by the Tata Group, has achieved financial closure while the Sasan and Krishnapatnam projects have been awarded to the Anil Dhirubhai Ambani Group for which appraisals are being carried out by financing agencies.

10. (U) Many of the GOI's concerns are based on an Asian Development Bank (ADB) report which states, "Given that a 4,000 MW coal-fired power plant is a large investment even by international standards, it is unlikely that apart from the three projects awarded, there will be any appetite for the remaining two UMPPs from Indian private sector firms acting on their own." According to the ADB, another major constraint facing all major infrastructure projects is a lack of long-term debt (preferably at fixed interest rates). For tariffs to be competitive, the ADB said a UMPP needed to be structured at 25:75 debt equity ratio, -- the maximum leverage required to attract debt at the international level. The ADB recommended that at least 50 per cent of the debt needs to be long-term of about 18 to 20 years, with the rest having an average maturity of about 12 years.

AHEAD OF US VISIT, PM CALLS
MEETING TO REVIEW ENERGY POLICY

11. (U) Prime Minister Singh has asked for a meeting with the full Planning Commission this Saturday to review an integrated energy policy and deliberate on the country's nuclear energy program. The meeting on the country's energy policy comes before the Prime Minister departs for the US on September 22. The main focus will be on a national plan to increase electricity generation throughout the country, which is expected to be an important political issue ahead of national elections next year. Electrifying more of India is crucial to the government's goals of sustainable robust growth and poverty reduction. The Planning Commission will also discuss additional power supply by increasing civil nuclear power generation.

CABINET APROVES COMPANIES BILL 2008

12. (U) The Companies Bill 2008 cleared the Indian Cabinet in

August and will be introduced in the next session of Parliament scheduled to begin October 17. The bill has been coordinated by the Ministry of Corporate Affairs (formerly the Ministry of Company Affairs) and will replace the Companies Law of 1956. The Companies Law has been amended 24 times and has more than 800 provisions. The proposed law aims to promote shareholder democracy, good corporate governance, and protect investors. The bill will redefine the way companies function and streamline mergers and acquisitions. Key provisions of the bill will facilitate joint ventures and relax restrictions that limit the number of partners in partnership firms and banking companies to a maximum of 100. With the number of companies in India growing to nearly 700,000 today (as compared to about 30,000 in 1956) some having greater regional and international presence, the Ministry wants to make it mandatory for a company to have at least one Indian Director on its board. Under the bill, a single person is permitted to form a company. The bill will encourage greater foreign investment by establishing a framework that promotes business and reduces bottlenecks.

¶13. (U) The Companies Bill also includes a bankruptcy law to provide an opportunity for rehabilitation of a business before a decision is taken to liquidate. In addition, insider trading by company directors will be recognized as an offense with criminal liability. Strict action against erring companies and regular defaulters will be addressed in the bill. The bill aims to put in place an effective regime to monitor and enforce good business practices. Embassy contacts report that the law is not currently a

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high priority and will likely not be passed this year.

DIPP STUDYING ICSID MEMBERSHIP

¶14. (SBU) Media report that the Ministry of Commerce's Department of Industrial Policy and Promotion (DIPP) may be internally reviewing the possibility of joining the World Bank's International Convention on Settlement of Investment Disputes (ICSID). A story in the Economic Times cited unnamed DIPP sources as indicating that discussions between the U.S. and India on a Bilateral Investment Treaty (BIT) had added impetus on joining ICSID. The fact that Indian companies have been making substantial investments abroad has also added to arguments in favor of ICSID membership. DIPP officials were unwilling to confirm the media reports to Emboff. However, a Delhi-based attorney who often advises the GOI, R.V. Anuradha of Clarus Law Associates, said that it made sense that DIPP was considering ICSID membership. She noted that the India-Singapore Comprehensive Economic Cooperation Agreement contained provisions for ICSID arbitration. It made sense to take the additional step and become a full-fledged member.

USTDA GRANT PROMOTES STANDARDS COOPERATION

¶15. (U) Promoting trade through cooperation in the area of standards, conformity assessment, and technical regulations (SCATR) is the subject of a \$535,300 United States Trade and Development Agency (USTDA) grant awarded today to the Confederation of Indian Industry (CII). The technical cooperation program will facilitate India's development of a transparent and more streamlined SCATR system based on market-driven, private sector-led approaches to global standardization.

¶16. (U) The USTDA grant will fund a technical expertise program that will include the launching of a U.S.-India standards portal, five sector-specific technical workshops, and technical collaboration in topics that address trade-related issues. The grant will strengthen the U.S.-Indian economic relationship by establishing an ongoing, self-sustaining bilateral cooperation forum that represents the broad interests of U.S. and Indian industry.

¶17. (U) CII has selected the American National Standards Institute (ANSI), a non-profit organization based in Washington, D.C., as the contractor to perform the USTDA-funded technical assistance. ANSI

brings a long history to this project as it has administered and coordinated the U.S. private sector voluntary standardization system for more than 90 years. In addition to the USTDA grant, ANSI will contribute additional resources toward the program's completion.

¶18. (U) This program will encourage overarching regulatory and policy changes in India that will increase U.S. market access across all industry sectors, and will also provide targeted engagement with specific industry sectors that have been identified as the greatest interest to U.S. organizations and/or have demonstrated the greatest impact on Indo-U.S. trade flows. Current estimates maintain that standards and conformity assessments influence 80 percent of all exports.

INTELLECTUAL PROPERTY DEVELOPMENTS

¶19. (U) The Indian Copyright Registrar R. G. Raghavender informed Intellectual Property (IP) Attache on September 18 that his work in revising the draft copyright legislation was complete. The original draft was revised following public comment on the legislation that included input from the United States. The revised draft will have to be approved by the Minister of Human Resource Development (HRD) before circulating it to the other Ministries for clearance. Mr.

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Raghavender hopes that the legislation will be approved by the HRD Minister and circulated in the next three weeks, as well as cleared with sufficient time for introduction into the Winter Session of Parliament.

¶20. (U) FICCI representatives told IP Attache on September 18 that the Controller General (CG) of Patents, Designs and Trademarks has announced to them that he will provide notice to patent holders when pre-grant oppositions are filed on their patents. This is an apparent extension of an announcement by Ministry of Commerce and Industry Joint Secretary Prasad to IP Attache and others at consultations on the draft Manual of Patent Practice and Procedure in Chennai on August 28 that the CG will provide notice to patent holders when applications for compulsory licenses are filed with respect to their patents.

INDIAN CABINET AMENDS PRINT MEDIA POLICY

¶21. (U) The Indian Cabinet has approved a new Print Media policy allowing publication of Indian editions of foreign news and current affairs magazines. Magazine content will be permitted to be identical to the parent foreign magazine, and the Indian publisher would be free to add local content and advertisements. At present, only technical, specialized, and educational foreign magazines are allowed to be published in India on identical conditions. The Department of Industrial Policy and Promotion is expected to implement the new policy in the near future.

¶22. (U) In addition to the FDI limit remaining unchanged at 26 percent (which is also the ceiling for all news media in print and TV), many other conditions still apply. Indian partners will have to be registered under the Indian Companies Act, 1956. Although they would be allowed to enter into financial arrangements (royalty payment) with the owners of the foreign magazines, permission would be conditional on at least three-fourths of the directors on the board of the Applicant Indian Company and all key executives and editorial staff would have to be resident Indians. Further, the title of the magazine would have to be registered by the Indian company with the Registrar of Newspapers for India. A record of 5 years of "continuous publication" and circulation of at least 10,000 paid copies in the country of origin will be required.

¶23. (U) With the notification of the decision, Indian versions of magazines like Time and Newsweek may be published in India with local content; however, the top editorial and management staff would have to be resident citizens of India. The move will provide Indian readers access to foreign magazines at cheaper rates in comparison

to the same magazines imported at much higher rates.

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BUREAUCRATIC APPOINTMENTS AT THE MINISTRY OF FINANCE

¶24. (SBU) The government has designated Ashok Chawla, the Civil Aviation Secretary, as the new Secretary of the Department of Economic Affairs (DEA), replacing Arun Ramanathan who was given the additional charge for a period of three months. With the appointment of Chawla so soon, Ramanathan goes back to his original position of Financial Services Secretary at the MOF. The position of Finance Secretary, the top bureaucrat position at the Ministry, remains unfilled and it is doubtful whether the UPA government will fill this senior-most position in its present term. In the past, there have been instances that the government has kept the position of Finance Secretary vacant, with the DEA Secretary taking care of the issues of the Ministry of Finance. Ramanathan is the senior most secretary and the normal practice is to appoint the senior most secretary as the finance secretary, but Ramanathan is scheduled to retire in April 2009. There is a possibility that Chawla may eventually be appointed as Finance Secretary, once Ramanathan retires. But all this depends upon which government comes into power

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after elections next May. Chawla is considered to be close to Finance Minister P Chidambaram.

¶25. (U) Chawla is an Indian Administrative Services officer of the 1973 batch from the Gujarat cadre. Prior to becoming the Civil Aviation Secretary in January 2007, Chawla was Additional Secretary at DEA from April 2005 looking after the issues of external economic relations, foreign investment, infrastructure financing, currency and coinage. His long and outstanding bureaucratic career includes working as Additional Secretary and Financial Adviser in the Ministry of Chemicals and Fertilizers, Chairman and Managing Director of the Security Printing and Minting Corporation of India Limited, Joint Secretary in Department of Chemicals and Petrochemicals and Chairman and Managing Director of the Indian Petrochemicals Corporation Ltd. He also was on the Board of the Oil and Natural Gas Corporation as a part-time Director. Chawla has served in many key positions in his cadre state of Gujarat. He holds a Masters degree in Economics and English Literature.

¶26. (U) The Appointments Cabinet Committee also promoted Additional Secretary Ms. Sindushree Khullar as Special Secretary of the DEA. Khullar took over as DEA's Additional Secretary in April 2007. Prior to that, she was Chairperson of the New Delhi Municipal Council. In her long and outstanding career, she has held many prestigious positions like Development Commissioner of Delhi, Managing Director of Delhi Cooperative Housing Finance Corporation and Secretary at the Ministry of Environment and Forests. Ms Khullar is an Indian Administrative Services officer of the Union Territory cadre of 1975 batch. She holds a number of post graduate degrees including Public Administration from Harvard University, Development Economics from Boston University, and Sociology from Jawaharlal University. She is the wife of Dr. Rahul Khullar, who also has been promoted as Special Secretary at the Ministry of Commerce.

NAMBIAR APPOINTED CIVIL AVIATION SECRETARY

¶27. (U) On September 17, M. Madhavan Nambiar, Special Secretary in the Ministry of Communications and Information Technology (MCIT), Department of Information Technology (DIT), assumed charge as the new Secretary in the Ministry of Civil Aviation, replacing Ashok Chawla who has been appointed to be Secretary of the Department of Economic Affairs in the Ministry of Finance. In his former position, Secretary Nambiar was co-chair of the U.S.-India Information, Communication & Technology (ICT) Working Group over the last three years and played a significant role in forging closer cooperation in the development and formulation of policy in for information technology, as well as in telecommunications and broadcast and media issues. Within the MCIT, he promoted India's booming information technology sector. Nambiar is a well-respected bureaucrat, good interlocutor and close contact of the Embassy and

USG. We expect to continue having a close working relationship with Nambiar in his new capacity.

¶28. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

MULFORD